

Fiscal Highlights

Sequestration in FY 2014 - Steven M. Allred

Sequestration in FY 2014 will be different than FY 2013. The Budgetary Control Act (BCA) of 2011 established sequestration as a fallback provision in case the Joint Select Committee (JSC) on Deficit Reduction failed to produce a plan. The JSC process failed, and sequestration took effect. Under current law, cuts of \$984 billion are required over FY 2013 through 2021, or about \$109 billion per year. In FY 2013, sequestration was implemented through automatic, across-the-board cuts split evenly between defense and non-defense, but was postponed until March 1, 2013 by the American Taxpayer Relief Act (ATRA) and reduced by \$24 billion (to a new total of \$85 billion).

Under the BCA, sequestration is just one of two tiers for deficit reduction. The first tier is a set of spending caps that limit discretionary spending. The second tier is the JSC/sequestration process that has received most of the attention. For FY 2014 through FY 2021, sequestration in programs the federal government terms "discretionary" will occur through downward adjustments on spending caps. This means that in FY 2014, funding levels for specific programs (including funding reductions) will be determined through the regular appropriations process. Programs considered "mandatory" (mostly Medicare), will still have automatic across-the-board cuts each year.

The following table shows the spending caps and the levels to which they are reduced under future sequestration. Note that the spending caps increase each year. As shown in the yellow highlighted row, the BCA will only result in a spending cut in FY 2014, and for each year thereafter non-defense discretionary spending will increase, perhaps just not as much as it otherwise would have.

Budget Control Act of 2011 (\$ in billions)									
	FY13*	FY14*	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Non-defense Spending Cap	499.0	506.0	520.0	530.0	541.0	553.0	566.0	578.0	590.0
Sequestration: Discretionary	(25.8)	(37.0)	(36.7)	(36.5)	(36.0)	(35.4)	(34.5)	(33.0)	(32.2)
Subtotal	473.2	469.0	483.3	493.5	505.0	517.6	531.5	545.0	557.8
Sequestration: Mandatory	(16.8)	(17.6)	(18.0)	(18.2)	(18.6)	(19.3)	(20.2)	(21.7)	(22.4)
Defense Spending Cap	544.0	552.0	566.0	577.0	590.0	603.0	616.0	630.0	644.0
Sequestration: Defense	(42.7)	(54.6)	(54.6)	(54.6)	(54.7)	(54.7)	(54.7)	(54.7)	(54.7)
Total Spending Cap	1,043.0	1,058.0	1,086.0	1,107.0	1,131.0	1,156.0	1,182.0	1,208.0	1,234.0
Total Sequestration	(85.3)	(109.2)	(109.3)	(109.3)	(109.3)	(109.4)	(109.4)	(109.4)	(109.3)

* FY13 and FY14 as amended by American Taxpayer Relief Act (ATRA) of 2012.

Since Congress will implement spending reductions as part of the appropriations process, we can't predict what programs will be reduced. And to make it even less predictable, both the Senate and House FY 2014 budgets violate the BCA's provisions. Both the Senate and the President's budget assume sequestration will be replaced. The House budget keeps sequestration but violates the spending caps in order to provide more funding to defense. The most likely scenario at this point is that no appropriations bills will pass and Congress will need to pass a continuing resolution (CR) by October 1. Congress could still amend the BCA, but if no amendment is made, the federal Office of Management and Budget will be required to implement sequestration to whatever level of funding is provided in the CR.